

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Fife Lake Area Utility Authority	County Grand Traverse
Fiscal Year End December 31, 2005	Opinion Date June 21, 2006	Date Audit Report Submitted to State June 30, 2006	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 	Printed Name Steven C. Arends		License Number 1101013211

**FIFE LAKE AREA UTILITY AUTHORITY**

**FIFE LAKE, MICHIGAN**

**DECEMBER 31, 2005**

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

ANNUAL FINANCIAL REPORT  
YEAR ENDED DECEMBER 31, 2005

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*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

June 21, 2006

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
Fife Lake Area Utility Authority  
Fife Lake, Michigan

We have audited the accompanying financial statements of the business-type activities of the Fife Lake Area Utility Authority as of and for the year ended December 31, 2005, which comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fife Lake Area Utility Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Fife Lake Area Utility Authority as of December 31, 2005 and 2004, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages ii through v, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as "Other Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, it is fairly stated in all material respects in relation to the financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2005

Fife Lake Area Utility Authority, a public municipal authority located in Fife Lake, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Fife Lake Area Utility Authority's administration's discussion and analysis of the financial results for the fiscal year ended December 31, 2005, along with specific comparative information as required.

**A. Government-wide Financial Statements**

This report includes government-wide statements as required by GASB Statement Number 34. The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Authority's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

**B. Summary of Net Assets**

The following schedule summarizes the net assets at December 31,

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Current Assets	\$ 32,565	\$ 21,948
Restricted Assets	<u>178,708</u>	<u>178,512</u>
Non Current Assets		
Capital Assets	3,441,254	3,441,254
Less Accumulated Depreciation	<u>2,107,467</u>	<u>2,021,691</u>
Total Non Current Assets	<u>1,333,787</u>	<u>1,419,563</u>
Total Assets	\$ <u>1,545,060</u>	\$ <u>1,620,023</u>
<b>Liabilities</b>		
Current Liabilities	\$ 28,461	\$ 28,866
Long-term Liabilities	<u>260,000</u>	<u>280,000</u>
Total Liabilities	<u>288,461</u>	<u>308,866</u>
<b>Net Assets</b>		
Invested in Capital Assets Net of Related Debt	1,053,787	1,119,563
Restricted for Specific Purposes	178,708	178,512
Unrestricted	<u>24,104</u>	<u>13,082</u>
Total Net Assets	<u>1,256,599</u>	<u>1,311,157</u>
Total Liabilities and Net Assets	\$ <u>1,545,060</u>	\$ <u>1,620,023</u>

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2005

**C. Analysis of Financial Position**

During the fiscal year ended December 31, 2005, the Authority's net assets decreased by \$54,558. A few of the more significant factors affecting net assets during the year are discussed below:

**1. Depreciation Expense**

The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended December 31, 2005, \$85,776 was recorded for depreciation expense.

**2. Capital Outlay Acquisitions**

For the fiscal year ended December 31, 2005, no expenditures were capitalized or recorded as assets of the Authority.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$85,776 for the fiscal year ended December 31, 2005.

**D. Results of Operations**

For the fiscal year ended December 31, the results of operations were:

	2005		2004	
	Amount	% of Total	Amount	% of Total
<b>General Revenues</b>				
Interest and Rents	\$ 2,096	1.25%	\$ 1,322	.81%
<b>Program Revenues</b>				
Charges for Services	165,448	98.75%	160,961	99.19%
Total Revenues	167,544	100.00%	162,283	100.00%
<b>Expenses</b>				
Utility System	222,102	100.00%	217,168	100.00%
Change in Net Assets	\$ (54,558)		\$ (54,885)	

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2005

**E. Analysis of Significant Revenues**

Significant revenues are discussed below:

**Charges for Services**

The majority of the revenues are comprised of user charges received from Fife Lake Area Utility customers.

**F. General Fund Budgetary Highlights**

The Authority is required by its bond ordinance to prepare an annual budget. Formal budgetary control is not imposed under the State of Michigan laws on proprietary fund types.

For the year ended December 31, 2005, the Authority did not amend the budget. The following schedule shows a comparison of the original budget, the final budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Total Revenues	\$ 158,572	\$ 158,572	\$ 167,544
Total Expenses	158,572	158,572	222,102

**G. Capital Assets and Debt Administration**

**1. Capital Assets**

The Authority's investment in capital assets for governmental activities as of December 31, 2005 amounted to \$1,333,787 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually (for purchases after January 1, 2003) and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2005

**Fife Lake Area Utility Authority  
Capital Assets as of December 31,**

	<u>2005</u>		<u>2004</u>
Land and Land Rights	\$ 48,084	\$	48,084
Buildings	40,500		40,500
Machinery and Equipment	102,628		102,628
Vehicles	24,850		24,850
Investment in Sewer System	<u>3,225,192</u>		<u>3,225,192</u>
	3,441,254		3,441,254
Less Accumulated Depreciation	<u>2,107,467</u>		<u>2,021,691</u>
<b>Net Capital Assets</b>	<b>\$ <u>1,333,787</u></b>	<b>\$</b>	<b><u>1,419,563</u></b>

**2. Long Term Debt**

At the end of the current fiscal year, the Authority had total installment debt outstanding of \$280,000. The entire balance of this debt is backed by the full faith and credit of the government. Additional information on the Authority's long-term debt can be found in the notes to the financial statements.

**H. Contacting the Authority's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report, please contact the Fife Lake Area Utility Authority, P.O. Box 219, Fife Lake, Michigan 49633.



FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

STATEMENT OF NET ASSETS

DECEMBER 31, 2005

ASSETS

CURRENT ASSETS

Cash	\$ 19,527
Accounts Receivable	10,038
Inventory	<u>3,000</u>
Total Current Assets	<u>\$ 32,565</u>

RESTRICTED ASSETS

Investments	<u>\$ 178,708</u>
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NON CURRENT ASSETS

Capital Assets	\$ 3,441,254
Less Accumulated Depreciation	<u>2,107,467</u>
Total Non Current Assets	<u>\$ 1,333,787</u>
TOTAL ASSETS	<u><u>\$ 1,545,060</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Payroll Withholdings Payable	\$ 1,628
Accrued Interest Payable	5,833
Customer Deposits Payable	1,000
Revenue Bonds Payable - Current Portion	<u>20,000</u>
Total Current Liabilities	\$ 28,461

LONG-TERM LIABILITIES

Revenue Bonds Payable - Net of Current Portion	<u>260,000</u>
Total Liabilities	<u>\$ 288,461</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 1,053,787
Restricted for Specific Purposes	178,708
Unrestricted	<u>24,104</u>
Total Net Assets	<u>\$ 1,256,599</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,545,060</u></u>

The notes to the financial statements are an integral part of this statement.

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2005

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM	BUSINESS-TYPE
		REVENUES	ACTIVITIES
		CHARGES FOR	NET (EXPENSE)
		SERVICES	REVENUE AND
			CHANGES IN
			NET ASSETS
<u>BUSINESS-TYPE ACTIVITIES</u>			
Utility System	\$ 222,102	\$ 165,448	\$ (56,654)
<u>GENERAL REVENUES</u>			
Interest and Rents			2,096
Change in Net Assets			\$ (54,558)
<u>NET ASSETS</u> - Beginning of Year			1,311,157
<u>NET ASSETS</u> - End of Year			\$ 1,256,599

The notes to the financial statements are an integral part of this statement.

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

COMPARATIVE BALANCE SHEET  
DECEMBER 31,

	<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
<u>CURRENT ASSETS</u>			
Cash			
Receiving Fund		\$ 12,918	\$ 12,005
Operation and Maintenance Fund		6,609	48
Accounts Receivable		10,038	6,895
Inventory		3,000	3,000
Total Current Assets		\$ 32,565	\$ 21,948
<u>RESTRICTED ASSETS</u>			
Investments			
Bond and Interest Redemption Fund		\$ 20,754	\$ 15,689
Bond Reserve Account		40,367	40,266
Improvement and Repair Account		117,587	122,557
Total Restricted Assets		\$ 178,708	\$ 178,512
<u>CAPITAL ASSETS</u>			
Land and Land Rights		\$ 48,084	\$ 48,084
Buildings		40,500	40,500
Machinery and Equipment		102,628	102,628
Vehicles		24,850	24,850
Investment in Sewer System		3,225,192	3,225,192
Total		\$ 3,441,254	\$ 3,441,254
Less:			
Accumulated Depreciation		2,107,467	2,021,691
Net Capital Assets		\$ 1,333,787	\$ 1,419,563
Total Assets		\$ 1,545,060	\$ 1,620,023

The accompanying notes are an integral part of these financial statements.

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

COMPARATIVE BALANCE SHEET  
DECEMBER 31,

	<u>2005</u>	<u>2004</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Payroll Withholdings Payable	\$ 1,628	\$ 1,616
Accrued Interest Payable	5,833	6,250
Customer Deposits Payable	1,000	1,000
Revenue Bonds Payable - Current Portion	<u>20,000</u>	<u>20,000</u>
Total Current Liabilities	\$ 28,461	\$ 28,866
<u>LONG-TERM LIABILITIES</u>		
Revenue Bonds Payable - Net of Current Portion	<u>260,000</u>	<u>280,000</u>
Total Liabilities	<u>\$ 288,461</u>	<u>\$ 308,866</u>
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	\$ 1,053,787	\$ 1,119,563
Restricted for Specific Purposes	178,708	178,512
Unrestricted	<u>24,104</u>	<u>13,082</u>
Total Net Assets	<u>\$ 1,256,599</u>	<u>\$ 1,311,157</u>
Total Liabilities and Net Assets	<u><u>\$ 1,545,060</u></u>	<u><u>\$ 1,620,023</u></u>

The accompanying notes are an integral part of these financial statements.

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

COMPARATIVE STATEMENT OF REVENUES AND EXPENSES

YEAR ENDED DECEMBER 31,

	<u>2005</u>	<u>2004</u>
<u>OPERATING REVENUES</u>		
Sewer Charges	\$ 164,188	\$ 160,961
Installations	1,260	0
Total Operating Revenues	<u>\$ 165,448</u>	<u>\$ 160,961</u>
<u>OPERATING EXPENSES</u>		
Operation and Maintenance		
Personal Services		
Salaries and Wages	\$ 41,754	\$ 41,304
Fringe Benefits		
FICA	3,194	3,160
Workers' Compensation	1,487	1,559
SIMPLE Savings Plan	1,077	1,177
Supplies		
Gas and Oil	3,045	3,458
Operating Supplies	881	1,263
Other Services and Charges		
Paging Service	66	131
Telephone	1,449	1,279
Contracted Services	4,477	2,498
Insurance and Bonds	9,275	8,852
Trash Removal	421	387
Utilities		
Heat	2,932	2,537
Electric	15,751	17,478
Equipment Repairs	13,140	13,985
Automotive Repairs	2,007	526
Computer Software	495	475
Depreciation	85,776	85,782
Miscellaneous	236	310
Administration and General		
Personal Services		
Salaries and Wages	8,840	9,010
FICA	676	689

The accompanying notes are an integral part of these financial statements.

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

COMPARATIVE STATEMENT OF REVENUES AND EXPENSES

YEAR ENDED DECEMBER 31,

	<u>2005</u>	<u>2004</u>
Supplies		
Office Supplies	459	789
Postage	1,545	1,241
Other Services and Charges		
Licenses and Permits	1,500	1,500
Professional Fees	6,621	1,623
Bank Charges	415	572
Total Operating Expenses	\$ 207,519	\$ 201,585
Operating Income (Loss)	\$ (42,071)	\$ (40,624)
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest Income	\$ 2,096	\$ 1,322
Interest Expense	(14,583)	(15,583)
Total Nonoperating Revenues (Expenses)	\$ (12,487)	\$ (14,261)
Change in Net Assets	\$ (54,558)	\$ (54,885)
<u>NET ASSETS</u> - Beginning of Year	<u>1,311,157</u>	<u>1,366,042</u>
<u>NET ASSETS</u> - End of Year	<u>\$ 1,256,599</u>	<u>\$ 1,311,157</u>

The accompanying notes are an integral part of these financial statements.

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31,

	2005	2004
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 162,305	\$ 160,929
Cash Payments to Suppliers for Goods and Services	(71,554)	(65,326)
Cash Payments to Employees for Services	(50,594)	(50,314)
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	\$ 40,157	\$ 45,289
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:		
Principal Payments	\$ (20,000)	\$ (20,000)
Interest Expense Paid	(14,583)	(15,583)
	<hr/>	<hr/>
Net Cash Provided by (Used for) Capital and Related Financing Activities	\$ (34,583)	\$ (35,583)
	<hr/>	<hr/>
Cash Flows from Investing Activities		
Interest Received	\$ 2,096	\$ 1,322
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 7,670	\$ 11,028
<u>CASH AND CASH EQUIVALENTS - Beginning of Year</u>	<hr/> 190,565	<hr/> 179,537
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	<hr/> \$ 198,235	<hr/> \$ 190,565

The accompanying notes are an integral part of these financial statements.

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31,

	<u>2005</u>	<u>2004</u>
<u>RECONCILIATION OF OPERATING INCOME</u> <u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Operating Income (Loss)	\$ (42,071)	\$ (40,624)
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities		
Depreciation	\$ 85,776	\$ 85,782
(Increase) Decrease in Current Assets		
Accounts Receivable	(3,143)	(32)
Increase (Decrease) in Current Liabilities		
Accounts Payable	0	(732)
Payroll Withholdings Payable	12	312
Accrued Interest Payable	(417)	(417)
Customer Deposits Payable	0	1,000
Total Adjustments	\$ 82,228	\$ 85,913
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>\$ 40,157</u>	<u>\$ 45,289</u>

The accompanying notes are an integral part of these financial statements.



FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Fife Lake Area Utility Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

**A. Reporting Entity**

The Fife Lake Area Utility Authority is a public municipal authority incorporated pursuant to Act 233 of the Public Acts of Michigan of 1955, as amended. The Authority was incorporated in 1979 by Fife Lake Township, located in Grand Traverse County, the Village of Fife Lake, located in Grand Traverse County and Springfield Township, located in Kalkaska County. The Authority was formed for the purpose of acquiring, owning, improving, enlarging, extending, and operating a sewage disposal system service within the member municipalities.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governments.

**B. Government-wide and Fund Financial Statements**

During fiscal year 2004, the Authority adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements issued through November 30, 1989 in accounting and reporting for its proprietary operations. Proprietary funds include the following fund type:

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

**1. Deposits and Investments**

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

The Investment Policy adopted by the Authority allows the Treasurer to invest funds in the following:

Certificates of deposit (six months to one year), savings accounts, deposit accounts, or money market accounts of a financial institution insured by an agency of the United States government and that maintains a principal office or branch office located in the state under the laws of this state or the United States.

2. Receivables and Payables

All trade receivables are shown without an allowance for uncollectibles because delinquent amounts attach as a lien against the benefited property which assures their eventual collection.

3. Capital Assets

Capital assets of the Authority are recorded at cost. Capital assets donated to the Authority are recorded at their estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Buildings	40	Years
Machinery and Equipment	5-20	Years
Vehicles	10	Years
Investment in Sewer System	40	Years

The Authority's capitalization policy is to capitalize individual amounts exceeding \$1,000.

4. Long-Term Obligations

The Authority reports long-term debt as a liability in its Proprietary Fund.

5. Inventory

Inventory consist of repair parts and supplies held for consumption. All inventory is reported at the lower of cost or market using the First In/First Out method.

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

**A. Budgetary Information**

The Authority is required by its bond ordinance to prepare an annual budget. Formal budgetary control is not imposed under State of Michigan laws on proprietary fund types.

III. DETAILED NOTES ON ALL FUNDS

**A. Deposits and Investments**

The Authority's deposits are all on deposit with Citizens Bank in Kalkaska, Michigan.

*Investment rate risk.* The Authority will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Authority's cash requirements.

*Foreign currency risk.* The Authority is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Authority will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Authority's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Authority will do business in accordance with the Authority's investment policy.

*Concentration of credit risk.* The Authority will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of December 31, 2005, \$86,063 of the government's bank balance of \$198,982 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes investments that are insured or registered, or securities held by the Authority or the Authority's agent in

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

the Authority's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Authority's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Authority's name. At December 31, 2005 the Authority held no investments.

**B. Capital Assets**

A summary of changes in the Authority's capital assets follows:

	Balance December 31, 2004	Additions	Deletions	Balance December 31, 2005
Capital assets:				
Land and Land Rights	\$ 48,084	\$ 0	\$ 0	\$ 48,084
Buildings	40,500	0	0	40,500
Machinery and Equipment	102,628	0	0	102,628
Vehicles	24,850	0	0	24,850
Investment in Sewer System	3,225,192	0	0	3,225,192
Subtotal	\$ 3,441,254	\$ 0	\$ 0	\$ 3,441,254
Accumulated depreciation	(2,021,691)	(85,776)	0	(2,107,467)
Net capital assets	\$ 1,419,563	\$ (85,776)	\$ 0	\$ 1,333,787

Depreciation expense for the year ended December 31, 2005, amounted to \$85,776.

**C. Long-Term Debt**

The following is a summary of the long-term debt transactions of the Authority for the year ended December 31, 2005:

	REVENUE BONDS
Long-Term Debt Payable at January 1, 2005	\$ 300,000
Long-Term Debt Incurred	0
Long-Term Debt Retired	20,000
Long-Term Debt Payable at December 31, 2005	\$ 280,000
Due within one year	\$ 20,000

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

Long-Term Debt at December 31, 2005 is as follows:

Revenue Bonds

\$585,000 Sewage Disposal System No. 1 Bonds due in Annual  
Installments of \$20,000 through August 1, 2019, Interest at 5% \$ 280,000

The annual requirements to amortize the debt outstanding as of December 31, 2005 are as follows:

YEAR ENDING DECEMBER 31,	Principal	Interest	Total
2006	\$ 20,000	\$ 14,000	\$ 34,000
2007	20,000	13,000	33,000
2008	20,000	12,000	32,000
2009	20,000	11,000	31,000
2010-2014	100,000	40,000	140,000
2015-2019	100,000	15,000	115,000
	<u>\$ 280,000</u>	<u>\$ 105,000</u>	<u>\$ 385,000</u>

**IV. OTHER INFORMATION**

**A. Interest Income and Expense**

For the year ended December 31, 2005, interest income on deposits and investments was \$2,096 and interest expense on revenue bonds was \$14,583.

**B. Restricted Assets**

The \$178,708 restricted assets reported on the balance sheet represents monies required under the bond ordinance for the following:

ITEM	ACTUAL	AMOUNT REQUIRED
Bond and Interest Redemption Fund	\$ 20,754	\$ 14,167
Bond Reserve Account	40,367	40,000
Improvement and Repair Account	117,587	0
	<u>\$ 178,708</u>	<u>\$ 54,167</u>

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**C. Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority participates in a pool of municipalities with the State of Michigan for self-insuring property and casualty, crime, general liability and errors and omissions insurance. The Authority pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Authority has not been informed of any special assessments being required for the current year or the three prior years.

Also, the Authority carries workers compensation insurance with the Accident Fund of Michigan. Settled claims for this coverage have not exceeded premium costs in any year to date.

**D. Retirement Plan**

Effective July 1, 1998, the Authority established a SIMPLE I.R.A. Plan. The Plan was established with Citizens Bank, Manton, Michigan. The Plan covers all employees who meet eligibility requirements based on annual compensation.

Each employee who is eligible to enroll in the Plan may set aside a percentage of his or her pay into the Plan (elective deferrals). The Authority is to make matching contributions equal to employee elective deferrals up to a maximum of 3% of compensation.

The individual retirement account balances become the property of the employee immediately. Therefore, there are no plan assets or liabilities which are includible as part of the Authority's reporting entity.

For the year ended December 31, 2005, covered wages for those participating in the Plan were \$38,894 and total wages for all employees including non-covered payroll were \$50,594. For 2005, contributions to the Plan by employees amounted to \$1,167 and the Authority also contributed \$1,077.

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

SEWAGE DISPOSAL SYSTEM NO.1  
STATEMENT OF BONDS PAYABLE

DECEMBER 31, 2005

<u>NAME OF ISSUE</u>	Fife Lake Area Utility Authority Sewage Disposal System No. 1 Bonds		
<u>DATE OF ISSUE</u>	February 1, 1980		
<u>PURPOSE</u>	To finance a portion of the cost acquiring and constructing a sewage disposal system to service the township of Fife Lake, The Village of Fife Lake and the Township of Springfield.		
<u>INTEREST PAYABLE</u>	February 1, and August 1, of each year		
<u>INTEREST RATE</u>	5%		
<u>AMOUNT OF ISSUE</u>	\$ 585,000		
<u>AMOUNT REDEEMED</u>			
Prior Years	\$ 285,000		
Current Year	20,000	305,000	
<u>BALANCE OUTSTANDING</u> - December 31, 2005	<u>\$ 280,000</u>		

<u>DUE DATES</u>	<u>REQUIREMENTS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
February 1, 2006		\$ 7,000	\$ 7,000
August 1, 2006	\$ 20,000	7,000	27,000
February 1, 2007		6,500	6,500
August 1, 2007	20,000	6,500	26,500
February 1, 2008		6,000	6,000
August 1, 2008	20,000	6,000	26,000



FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

SEWAGE DISPOSAL SYSTEM NO.1  
STATEMENT OF BONDS PAYABLE

DECEMBER 31, 2005

<u>DUE DATES</u>	<u>REQUIREMENTS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
February 1, 2009		5,500	5,500
August 1, 2009	20,000	5,500	25,500
February 1, 2010		5,000	5,000
August 1, 2010	20,000	5,000	25,000
February 1, 2011		4,500	4,500
August 1, 2011	20,000	4,500	24,500
February 1, 2012		4,000	4,000
August 1, 2012	20,000	4,000	24,000
February 1, 2013		3,500	3,500
August 1, 2013	20,000	3,500	23,500
February 1, 2014		3,000	3,000
August 1, 2014	20,000	3,000	23,000
February 1, 2015		2,500	2,500
August 1, 2015	20,000	2,500	22,500
February 1, 2016		2,000	2,000
August 1, 2016	20,000	2,000	22,000
February 1, 2017		1,500	1,500
August 1, 2017	20,000	1,500	21,500
February 1, 2018		1,000	1,000
August 1, 2018	20,000	1,000	21,000
February 1, 2019		500	500
August 1, 2019	20,000	500	20,500
	<u>\$ 280,000</u>	<u>\$ 105,000</u>	<u>\$ 385,000</u>

EARLY REDEMPTION

Bonds maturing in the years 1981 to 1993, inclusive, shall not be subject to redemption prior to maturity.

Bonds maturing in the years 1994 to 2019, inclusive, will be subject to redemption prior to maturity, in inverse numerical order, at the option of the Authority on any one or more interest payment dates on or after August 1, 1993, at the par value thereof and accrued interest to the date fixed for redemption.

FIFE LAKE AREA UTILITY AUTHORITY  
FIFE LAKE, MICHIGAN

SEWAGE DISPOSAL SYSTEM NO.1  
STATEMENT OF BONDS PAYABLE

DECEMBER 31, 2005

Notice of redemption shall be given to the holders of the Bonds to be redeemed by publication of such notice not less than thirty (30) days prior to the date fixed for redemption, at least once in a newspaper or publication circulated in Michigan, which carries as a part of its regular service, notices of the sale of municipal bonds. In the case of registered bonds, (unless registered to "Bearer") thirty (30) days' notice shall be given by mail to the registered holder at the registered address and no publication shall be necessary. Bonds so called for redemption shall not bear interest after the date fixed for redemption, provided funds are on hand with the paying agent to redeem the same.

The principal of said Bonds and the interest thereon shall be payable in lawful money of the United States of America; at a bank or trust company to be designated by the purchaser of the bonds, upon presentation and surrender of said Bonds, or if registered, to the registered holder at the address shown on the registration books of the Authority.

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231-775-9789  
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JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

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JOHN F. TAYLOR, C.P.A.  
STEVEN C. ARENDS, C.P.A.  
SCOTT A. HUNTER, C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

June 21, 2006

### LETTER OF REPORTABLE CONDITIONS

To the Board of Commissioners  
Fife Lake Area Utility Authority  
Fife Lake, Michigan

In planning and performing our audit of the basic financial statements of the Fife Lake Area Utility Authority, Fife Lake, Michigan for the year ended December 31, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Authority makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, management must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board of Commissioners and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Very truly yours,

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

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*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

June 21, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Board of Commissioners  
Fife Lake Area Utility Authority  
Fife Lake, Michigan

As a result of our audit of the financial statements of the Fife Lake Area Utility Authority for the year ended December 31, 2005, we would like to take this opportunity to comment on the following items relative to the management and accounting procedures of the Authority.

Reportable Condition in Internal Controls

In planning and performing our audit of the basic financial statements of the Fife Lake Area Utility Authority for the year ended December 31, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

Certain matters considered to be reportable conditions in internal controls were noted. We are issuing a separate letter (letter of reportable conditions) which addresses those items noted.

Early Payoff of Bonds

The Authority is currently paying 5% on its outstanding bonds. With the availability of cash reserves of approximately \$120,000, the Authority should consider paying off some of the debt ahead of schedule. The bond resolution allows early payoff of bonds maturing after 1993. With current low investment rates, and a payoff of \$60,000 the Authority could save \$1,800 to \$2,000 per year in interest expense. We recommend the Authority consider an early payoff of its debt.

Accounting Records

Once again the accounting records were found to be in excellent condition and in accordance with the State of Michigan Uniform Chart of Accounts. We commend the outgoing treasurer for a job well done.

We would like to thank the board for its continued confidence in our firm and to thank the Authority personnel for their cooperation.

If you have any questions relative to the above items or other areas of your annual accounting, please feel free to call on us.

Very truly yours,

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*